

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, APRIL 2, 2002**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, April 2, 2002 commencing at 7:02 a.m.

A. ROLL CALL

Present: Council Members – Howard, Land, Nakanishi, and Mayor Pennino

Absent: Council Members – Hitchcock

Also Present: City Manager Flynn, City Attorney Hays, and City Clerk Blackston

B. CITY COUNCIL CALENDAR UPDATE

City Clerk Blackston reviewed the weekly calendar (filed).

City Manager Flynn announced that today was Mayor Pennino's birthday and City Attorney Hays' birthday is on April 12.

C. TOPIC(S)

C-1 "Budget – Electric Rates and Market Cost Adjustment"

NOTE: Due to a potential conflict of interest as an employee of Pacific Gas and Electric (PG&E), Mayor Pennino abstained from discussion on Item C-1 and vacated his seat at the dais.

With the aid of overheads (filed) Electric Utility Director Vallow reported on the financial condition of the Utility. He pointed out that the Enron and PG&E bankruptcies exemplify the unstable and insecure energy market. Mr. Vallow stated that the Utility entered into a long-term contract with Calpine last year. The contract was favorable by last year's standards, but only marginal at today's standards. He had hoped to restructure the contract between November 2001 and February 2002; however, it has not been possible. He explained that Calpine has also had financial difficulties and is being scrutinized by various federal and state agencies, regulators, and the financial community. Calpine has cut 70% of what it had projected to build. The Federal Energy Regulatory Commission price caps will be removed in November, which will add to the uncertainty of the market.

Mr. Vallow stated that the Utility's current financial position is stable. He did not recommend changing the Market Cost Adjustment (MCA) at this time due to the continued instability of the market. He noted that the Utility will make internal cuts where possible and recommended that the MCA be considered again this fall. Mr. Vallow stated that the Council set a "soft policy" when it established a rate structure, which he believed, in essence, kept the economic engine of Lodi going. Based on energy use, this policy resulted in a 7% business expansion in Lodi. He explained that it was much more beneficial to the Utility's residential customers to be employed, than to save \$5 or \$6 dollars a month on their electricity bill.

Mr. Vallow reported that during the months of April through November the Utility typically has a surplus that is sold to the state for half what customers pay. He proposed a Home Comfort Discount program, in which customers would have the "first right of refusal" for this surplus energy. As an example, if a customer used 700 kilowatt hours in 2001 and in 2002 they use 850 kilowatt hours, 700 of the 850 hours would be charged at the current rate and the additional 150 hours would be deeply discounted. The premise of the Home Comfort Discount program is to reward customers and allow them to be comfortable during the summer months. The Utility will continue to focus on energy efficiency programs.

Council Member Howard stated that she had met with Mr. Vallow last Friday and discussed the Utility and this morning's topic. She spoke in support of the Home Comfort Discount program and believed that it represents what Mr. Vallow always strives to do, i.e., to look for what is in the best interest of the City and is most fair to its citizens.

In reply to Council Member Howard, Mr. Vallow explained that an MCA adjustment is not being recommended at this time because the Utility is prohibited by its bond covenants from establishing a revenue that is less than its cost.

Council Member Howard suggested that if the Home Comfort Discount program is approved by Council, a summary be prepared at the end of the year to show what the participation level was.

Council Member Nakanishi recalled that, originally, the MCA was instituted for the purpose of collecting \$7 million of a \$10 million shortfall. He asked how much has been collected.

Mr. Vallow reported that approximately \$9.2 million will be collected this fiscal year. He stated that the MCA for last year was insufficient to cover the Utility's power costs for this year.

Council Member Nakanishi asked City Manager Flynn why the City did not borrow the \$10 million and amortize it over a ten-year period. Mr. Flynn explained that staff made that proposal to Council; however, they were directed to keep the money for cash flow purposes and not to use it to amortize the rates.

Council Member Nakanishi expressed concern about the public's perception that the City is "gouging" its citizens by not eliminating the MCA, particularly in light of the \$900,000 transfer from the Utility to the general fund. He suggested that a better job be done of explaining the situation to the public.

Mr. Vallow reported that residential rates have been lowered from 14.8 cents to 13.3 cents, the Utility's budget is stable, and an environment was created where businesses were able to grow. He hoped to bring back the Home Comfort Discount program for Council consideration in June.

In reply to Council Member Land, Mr. Vallow stated that the City uses 440,000 megawatt hours a year and generates 620,000 hours. The summer surpluses are based on running the White Slough gas turbine at 50% capacity. Spicer Reservoir is projected to be 110% of capacity.

Council Member Land agreed with Ms. Howard's suggestion that a summary be prepared at the conclusion of the Home Comfort Discount program. He commented that at a regulatory meeting of the Northern California Power Agency (NCPA) it was announced that NCPA's budget may double for litigation costs related to the PG&E bankruptcy.

Tony Goehring, Economic Development Coordinator, stated that he has repeatedly received assistance from Electric Utility in providing advantages so that Lodi can compete with other communities for new businesses. He spoke in support of the Home Comfort Discount program.

PUBLIC COMMENTS:

- Paul Littlefield, General Mills Manager, stated that Electric Utility is consistent and reliable. Its cost structure provides an opportunity for General Mills to be competitive.
- Pat Patrick, Executive Director of the Chamber of Commerce, voiced support for Electric Utility.

Continued April 2, 2002

D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

E. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 7:53 a.m.

ATTEST:

Susan J. Blackston
City Clerk

Mayor's & Council Member's Weekly Calendar

WEEK OF APRIL 2, 2002

Tuesday, April 2, 2002

- REMINDER** Conflict of Interest Statements are due by 5:00 p.m.
- 7:00 a.m. Shirtsleeve Session
1. Budget – Electric Rates and Market Cost Adjustment
- 7:00 a.m. Special Meeting
1. Prospective lease of property located at 100 East Pine Street, (APN 043-072-01); the negotiating parties are the City of Lodi and the Lodi Adopt-A-Child Foundation; price and terms of the lease are under negotiation; Government Code §54956.8

Wednesday, April 3, 2002

- 5:30 p.m. **Pennino.** Women's Center of San Joaquin County's Building Dedication Ceremony in memory of Lois Borchardt, founding member of the Women's Center – Lodi Office, 29 S. Washington Street. Mayor to present certificate.
- 7:00 p.m. City Council meeting
(Note: Closed Session meeting starts 5:45 p.m.)

Thursday, April 4, 2002

- REMINDER** **Pennino.** Central California Mayors Conference, Fresno, 4/4 – 4/5/02
- 5:00 – 6:00 p.m. Reception to view "the busts" in honor of Mr. Lindeman's (LUHS Class of 1955) donation, Hutchins Street Square ~ Fine Arts Theatre.

Friday, April 5, 2002

- REMINDER** **Pennino.** Central California Mayors Conference, Fresno, 4/4 – 4/5/02
- 6:00 p.m. **Pennino.** Lodi Memorial Hospital's 50th Anniversary celebration, Hutchins Street Square.

Saturday, April 6, 2002

- 5:00 p.m. **Pennino.** San Joaquin County Historical Society & Micke Grove Zoological Society's "Legends of California" Wine Auction and Dinner Award, Lodi Grape Festival Grounds.

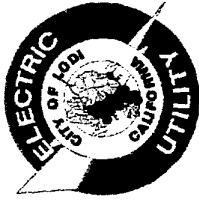
Sunday, April 7, 2002

- 1:00 – 5:00 p.m. Grand Opening – Lodi Public Library open on Sundays!
- REMINDER** **Hitchcock.** Eagle Scout Award presentation, St. Paul's Lutheran Church.



Monday, April 8, 2002

Disclaimer: This calendar contains only information that was provided to the City Clerk's office
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EUD Rate Presentation

April 2nd, 2002



Financial Condition

- Current projected Revenue Requirement is met by current rates & MCA & proposed rate
- Additional internal cost cuts will be required
- Uncertainty as to cost prevents MCA adjustment now
 - Finalization of NCPA Budget
 - FERC Price cap lifting effect
 - PG&E Interconnection Agreement termination
 - PG&E Bankruptcy
 - Current cost still too high
- Look at MCA again this fall



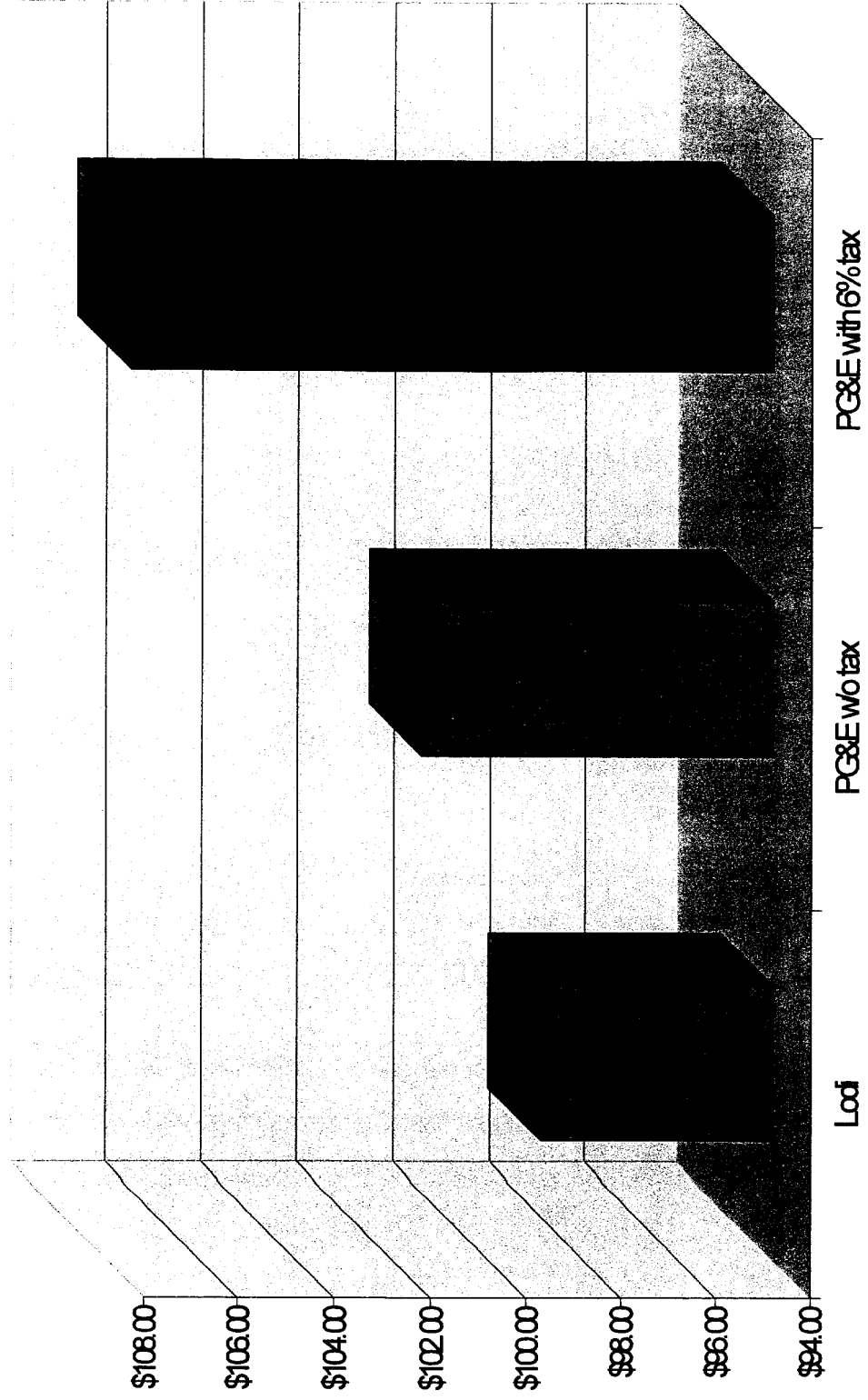
Current Lodi Competitiveness

- Generally Lodi has advantage over PG&E
- IOUs Rates will rise 10% for residential/small commercial with expiration of AB1890 reduction April 1, 2002
- Other City utility tax issue (Stockton)
- Contract customers average 6 cents/kwh, PG&E is double

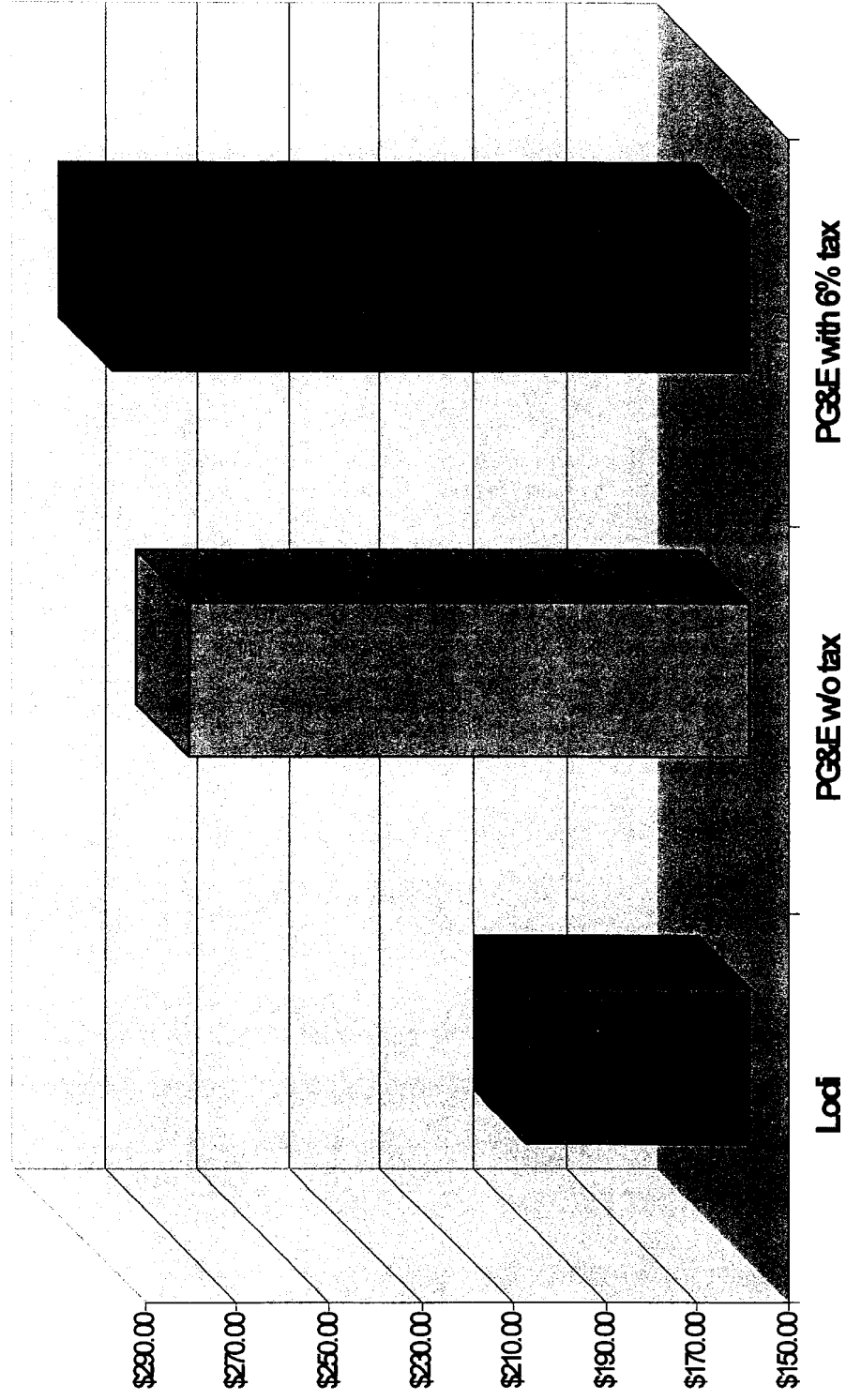
Average Summer Bills							
	Lodi Rate	Kwh	Lodi	PG&E w/o tax	Lodi Advantage	PG&E with 6%	Lodi Advantage
Residential	EA	700	\$99	\$101	2.5%	\$107	8.7%
Small Commercial	G-1	1,200	\$199	\$272	37.1%	\$289	45.3%
Large Commercial	G-2	22,000	\$2,971	\$4,164	40.2%	\$4,414	48.6%
Industrial	G-5	320,000	\$43,507	\$60,328	38.7%	\$63,948	47.0%
Contract	Contract	900,000	\$54,900	\$159,300	190.2%	\$168,858	207.6%

Residential Summer Bill Comparison					
	Lodi	PG&E		PG&E	
	Summer	Summer	Lodi	Summer	Lodi
Kwh	EA	E-1 w/o tax	Advantage	E-1 with 6% tax	Advantage
200	\$23.97	\$25.18	5.0%	\$26.69	11.3%
300	\$35.96	\$37.77	5.0%	\$40.03	11.3%
400	\$48.95	\$50.36	2.9%	\$53.38	9.0%
500	\$64.23	\$64.43	0.3%	\$68.30	6.3%
600	\$81.05	\$81.92	1.1%	\$86.84	7.1%
700	\$98.87	\$101.37	2.5%	\$107.45	8.7%
800	\$116.69	\$120.81	3.5%	\$128.06	9.7%
900	\$134.51	\$143.42	6.6%	\$152.03	13.0%
1,000	\$152.32	\$167.26	9.8%	\$177.29	16.4%
1,100	\$170.14	\$191.10	12.3%	\$202.56	19.1%
1,200	\$187.96	\$214.93	14.4%	\$227.83	21.2%
1,300	\$205.78	\$239.93	16.6%	\$254.32	23.6%
1,400	\$223.60	\$265.75	18.9%	\$281.70	26.0%
1,500	\$241.41	\$291.58	20.8%	\$309.07	28.0%
1,600	\$259.23	\$317.40	22.4%	\$336.45	29.8%
1,700	\$277.05	\$343.23	23.9%	\$363.82	31.3%
1,800	\$294.87	\$369.06	25.2%	\$391.20	32.7%

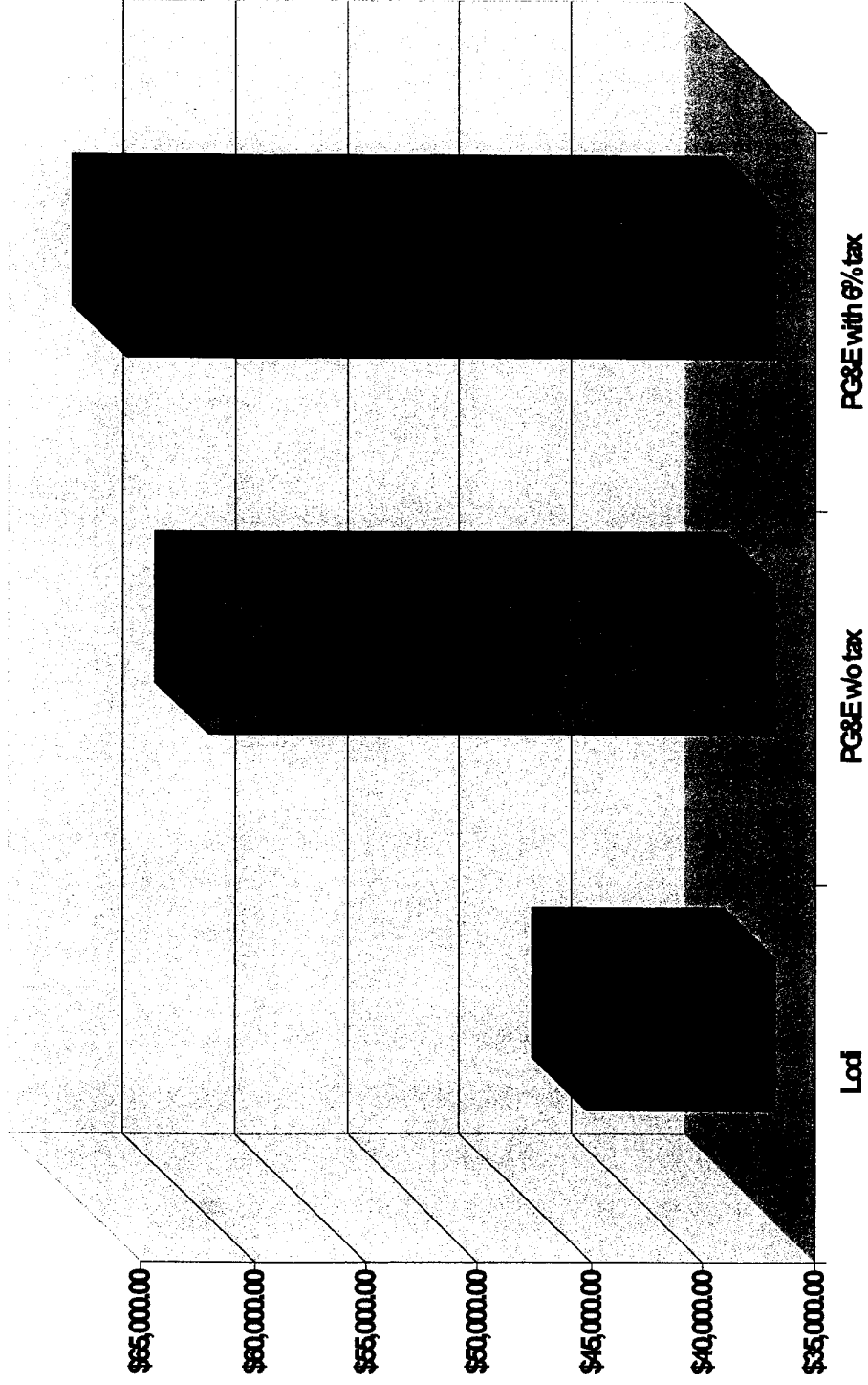
**Residential Bill Comparison (EA)
summer @700 kwh**



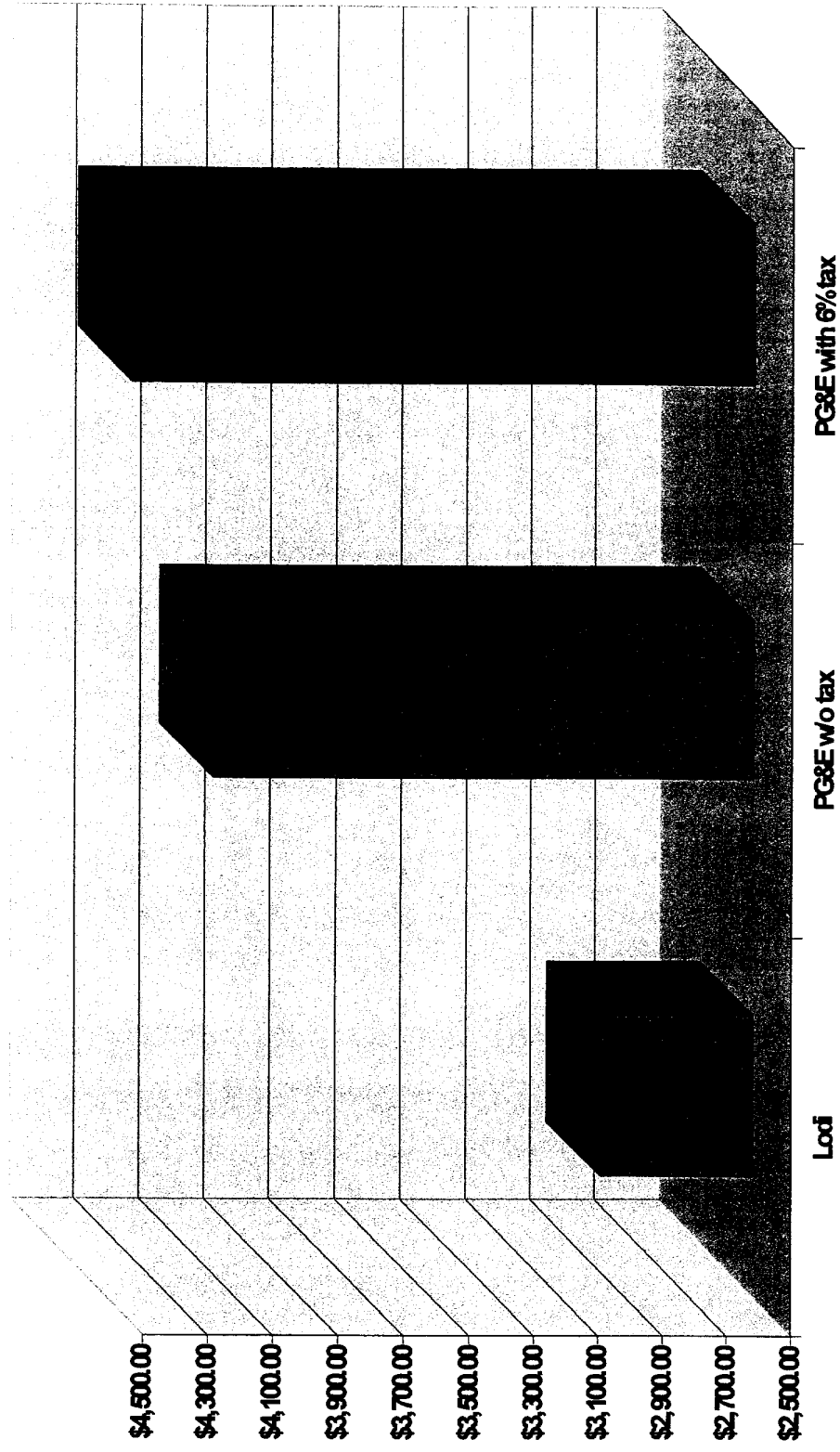
Small Commercial Bill Comparison (G-1 vs A-1)
summer bill @ 1,200 kwh per month

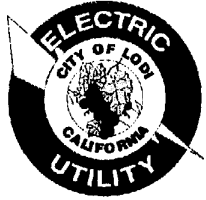


Industrial TCU Bill Comparison (G-5/E-19)
summer @ 320,000 kWh



Medium Commercial Rate Comparison (G-2/A-10)
summer @ 22,000 Kwh





Strategic Question:

- How do we maintain revenues to recover costs, yet give increased value & lower rates to our customers now?
- EUD is energy surplus during peak months
- Power would usually go to market; essentially the state
- Could we deliver a lower rate now, given our current cost structure?



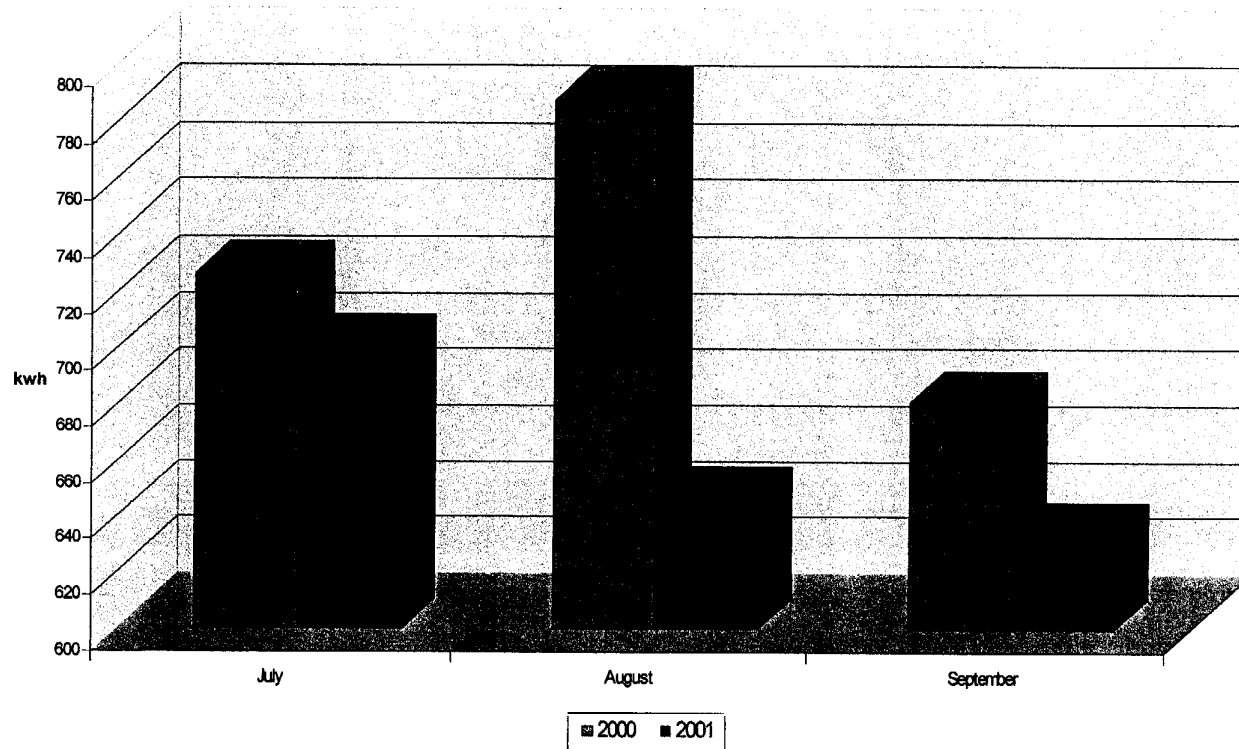


Energy Conservation Effort

Last year we asked for conservation given the high power costs we faced

- Energy use did drop due to weather & conservation
- Energy Efficiency Programs worked (not to be confused with conservation)
- Higher rates lead to reduced consumption

Comparison average monthly residential usage 2000/2001





Home Comfort Discount

- Additional use from last year will be at a 30% discounted rate over marginal rates for Residential and Small Commercial Customers in Summer
- The Customer can choose to use more or continue to conserve
- Essentially a reduction in MCA for Summer only
- Preserves Current Revenue- which is critical now
- Encourages efficient usage
 - MCA still in place
 - Inverted rate structure still in place
 - Public Benefit Programs will be enhanced
 - Conservation is not Energy Efficiency
 - Conservation in many cases is deprivation
- Allows Customer to live more comfortably if they choose
- Gives Customer right of first refusal before we market to market
- Similar to Large Customer Options
- Alternative to HCD: higher consumption = higher bill than HCD

Home Comfort Discount Example

	Kwh	
2001 Summer Monthly Usage	700	
2002 Summer Monthly Usage	850	
Difference	150	Ave
	\$	\$/kwh
Current Bill @ 700	\$98.87	\$0.141
Current Bill @ 850	\$125.60	\$0.148
Home Comfort Discount	-\$12.48	
Proposed Bill	\$113.12	\$0.133



Summary

- Home Comfort Discount in place this summer
- Remaining MCA & rates recover cost
- Other minor rate changes
 - Program Share
 - Minor MCA/Rate Adjustment
 - Contract
 - Other